



## **Kentucky Economic Development Finance Authority (KEDFA)**

### **Kentucky Jobs Development Act (KJDA)**

*This fact sheet provides an overview of the KJDA program. For a full discussion of the program requirements, please see KRS 154.01-010 through 154.01-150. As with all state administered tax incentive programs, any inducements offered to an eligible company under the KJDA program are negotiated by Cabinet for Economic Development officials.*

#### **Eligible Companies**

A company that is eligible to receive KJDA benefits is a service or technology related company such as a data processing, research and development, or any other non-manufacturing, non-retail “white collar” company. The company must provide more than 75 percent of its services, as generated through revenues, to persons located outside the state. Additionally, the company must increase its employment of Kentucky residents by a minimum of 15 new, full-time jobs at the project site.

#### **Approved Costs**

Approved Costs are defined as up to 50 percent of the start-up costs, which include the costs associated with furnishing and equipping the facility, and up to 50 percent of the annual rent costs. (Note: Total start-up costs are limited to a maximum of \$20,000 per new full time job for Kentucky residents subject to personal income tax, of which 50 percent, or a maximum of \$10,000, can be recouped through the incentives.)

#### **Inducements**

The company receives a 100 percent credit against the state income tax arising from the project, and a wage assessment of up to 5 percent of the increased gross payroll of the new employment resulting from the project. Total assessments and credits cannot exceed the Approved Costs, and cannot be taken beyond a 10-year period.

#### **Employee Tax Credit**

If the company uses the wage assessment portion of the program, each employee is entitled to an income tax credit against the Kentucky income tax up to 4/5 of the total wage assessment. In addition, the employee is entitled to credit against the local occupational tax up to 1/5 of the total wage assessment.

#### **Fees**

There is a \$500 non-refundable application fee payable upon submission of the KJDA application. Fees that the company may expect to incur as a result of Final Approval include an administrative fee equal to 1/10 of 1 percent with a minimum of \$1,000. In addition, the company will incur legal fees necessary for the preparation of the Service and Technology Agreement.

#### **Minimum Employee Compensation**

Pursuant to KRS 154.24-090, any company participating in the KJDA program is required to compensate at least 90 percent of its employees whose jobs were created as a result of the project with a minimum hourly wage established for the county in which the project locates. In addition, the participating company must provide its new employees with benefits as defined in KRS 154.24-090 equal to at least 15 percent of the county minimum hourly wage. If employee benefits are less than



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15 percent, a company may utilize a combination of wages and employee benefits equivalent to 115 percent of the county minimum hourly wage.

#### **Process**

- A completed application is submitted by the company to KEDFA and the local jurisdiction before the last Friday of the month prior to the KEDFA Board meeting.
- A letter from the company describing the project and outlining the company's compliance with the criteria for the program is submitted with the application.
- A letter from the local jurisdiction supporting the project is submitted with the application.
- The total amount of incentive available to a project is negotiated with the Cabinet.
- A Preliminary Resolution is executed by KEDFA approving the project which occurs at the board meeting held approximately 30 days after submission of the application.
- At the time of Preliminary Approval, a Memorandum of Agreement is sent to the company to be executed.
- A public hearing is held approximately 3-6 months prior to Final Approval.
- A resolution is adopted by the local jurisdiction prior to Final Approval.
- Final Approval and execution of the Service and Technology Agreement must occur within one year from the date of Preliminary Approval. The Agreement must be fully negotiated at the time of Final Approval. All fees must be paid and the Activation Date of the project must be set in order to finalize the Agreement. Activation of the project can occur no later than one year from Final Approval.
- Verification of the start-up costs and rental payments will occur after Activation.
- After Activation, exhibits included within the Agreement will be submitted every year for the duration of the company's participation within the program for up to ten years.

**Note:** The company must obtain Preliminary Approval from KEDFA prior to making commitments or entering into contracts.

#### **Example**

XYZ Company locates a national sales office in Kentucky. The company data and project parameters consist of the following factors:

- The company will employ 100 Kentucky residents with an average annual wage of \$30,000.
- The company leases office space for annual leasing costs of \$200,000.
- The company's total start-up costs of \$2,000,000 is comprised of new office furniture, new equipment, and a computer system.
- XYZ Company's project produces \$1,000,000 in income subject to Kentucky income tax. The Kentucky corporate income tax liability is calculated to be \$77,625.



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Based on the above assumptions, the company's total Approved Costs would be as follows:

- Start-up costs of \$2,000,000 x 50% = \$1,000,000
- Rent costs of \$200,000 for 10 years x 50% = \$1,000,000
- Total Approved Costs \$2,000,000

During the ten year period of the agreement, the approved company can use wage assessments and tax credits up to the amount of the Approved Costs. For example:

- Wage assessments of up to 5% on the increased employment.
- $\$30,000 \times 100 = \$3,000,000 \times 5\% = \$150,000$  annually, or \$1,500,000 during the 10 years.
- Annual corporate tax liability as a result of the project is assumed to be \$77,625 for 10 years.
- The total wage assessment and tax credit of \$1,500,000 and \$776,250 equals \$2,276,250.

In summary, the approved company is able to use total benefits of the \$2,000,000 in Approved Costs to offset its start-up and rent costs accrued during the 10 year period.

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